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CONSUMER INFLATION SENTIMENT

DECEMBER 2022 ■

IN IT
FOR THE
LONG HAUL

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CONSUMER INFLATION SENTIMENT

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INTRODUCTION

As inflation hovers at high rates not seen since the 1980s, American consumers are growing increasingly anxious. The Bureau of Labor Statistics (BLS) currently reports a 7.7% inflation rate — lower than the 8.2% rate reported last month — but consumers continue to perceive price increases as much higher than the figures reported.¹ Under these conditions, consumers are tightening their belts and bracing for what is poised to be the longest period of inflation in modern U.S. history.

PYMNTS’ December Consumer Inflation Sentiment report finds that 88% of consumers’ paychecks have not kept up with inflation, and that consumers on average believe it will take another 20 months before inflation returns to 2021 levels.

Consumer Inflation Sentiment: In It For The Long Haul is the fifth installment of this series, which explores consumers’ outlook on the American economy. We surveyed 2,379 U.S. consumers between Nov. 3 and Nov. 7 to better understand how they perceive the current economic situation and their concerns about the future.

This is what we learned.

¹ Author unknown. Current US Inflation Rates: 2000 - 2022. U.S. Inflation Calculator. 2022. <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>. Accessed November 2022.

Consumers' perception of inflation is more extreme than what is reported by government sources.

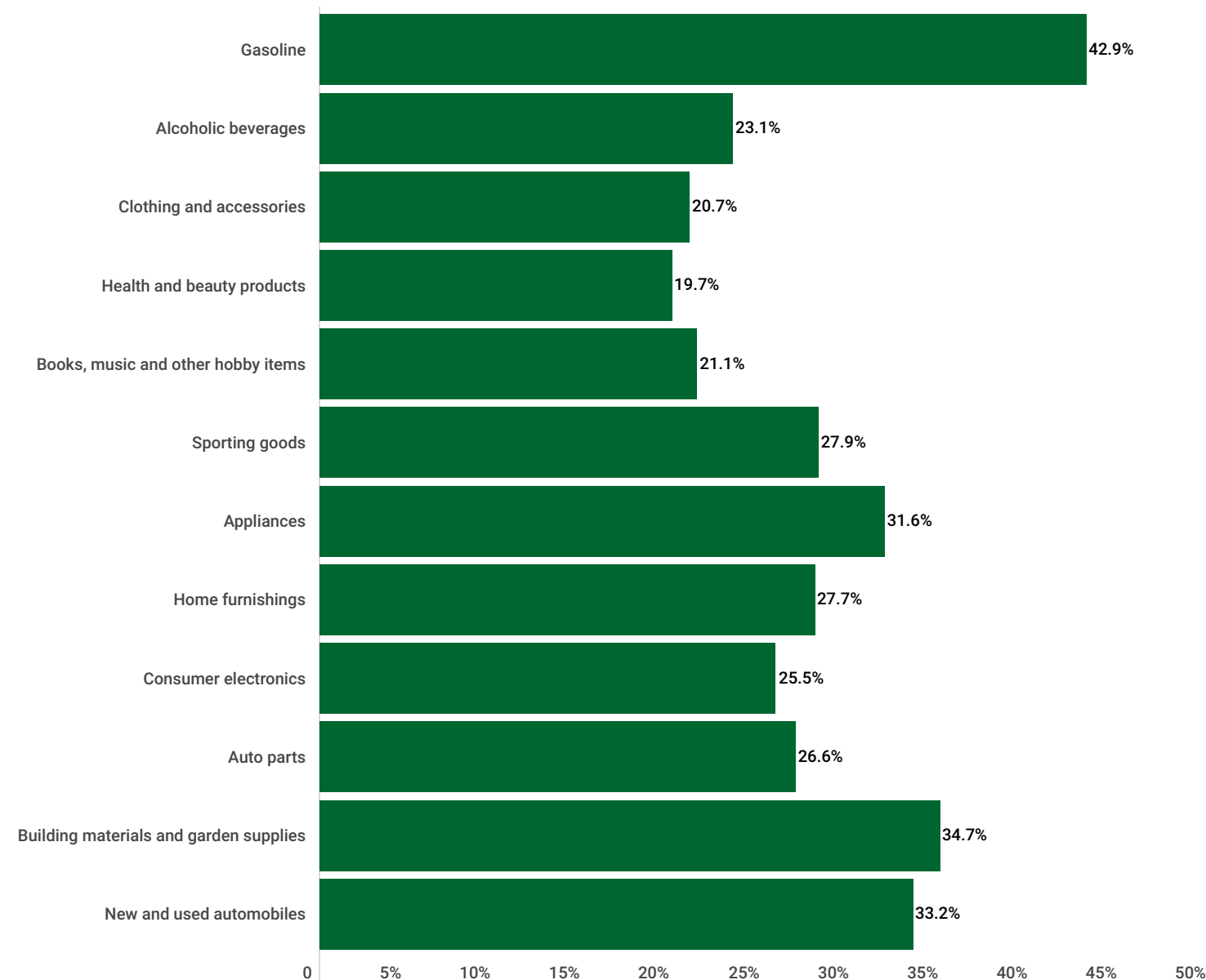
When gauging the impact of inflation in certain spending areas, consumers tend to estimate that prices increased significantly more than the BLS' estimates.

Gasoline is the area where consumers perceive the highest average increases: Consumers report a 43% increase, well above the 26% increase recorded by official statistics. Consumers' perceived price increase for groceries is also much higher than what the BLS recorded. The perceived inflation rates are particularly divergent for dairy products, at 22% versus 15%, and meats, at 23% compared to 8%. A similar gap is perceived in most retail categories, including apparel and electronic appliances. Consumers believe clothing prices, for example, are on average 21% above 2021 levels, while the BLS cites just a 4% increase.

Figure 1A

Consumers perceive greater inflation than BLS reports

Average perceived year-over-year price increase for select retail products

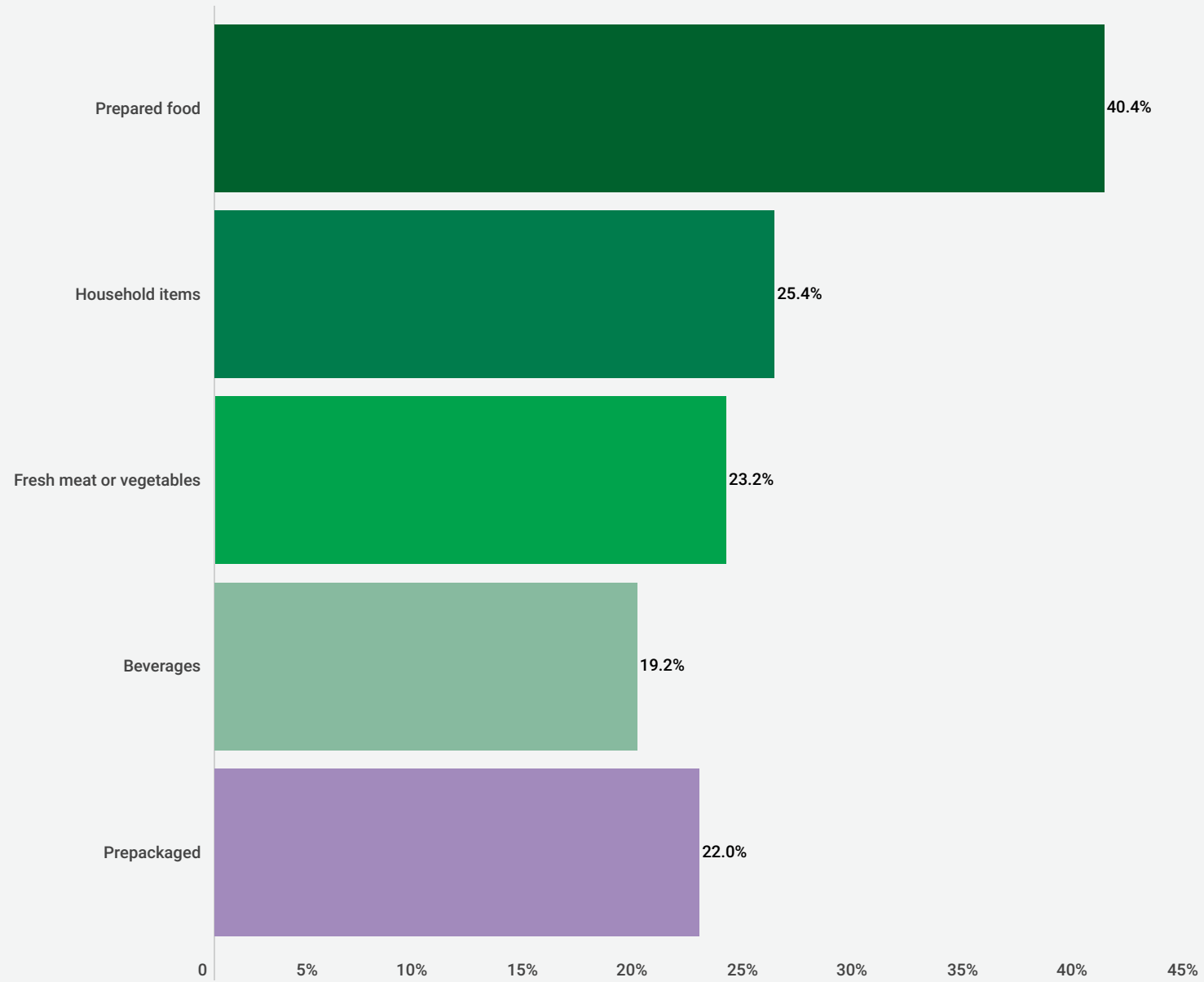


Source: PYMNTS

Consumer Inflation Sentiment: In It For The Long Haul, December 2022

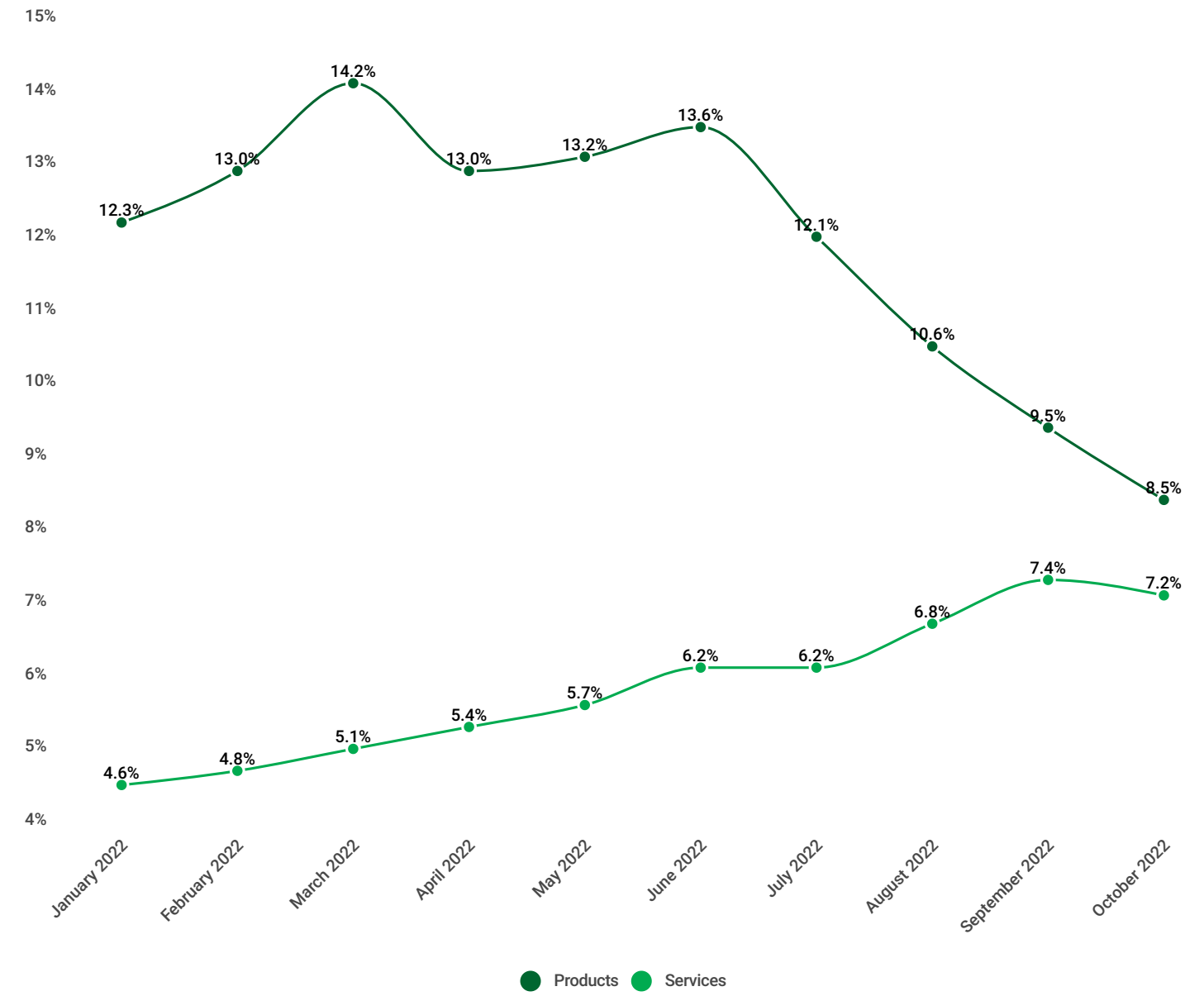
N = 2,379: Whole sample, fielded Nov. 3, 2022 – Nov. 7, 2022

Figure 1B
Consumers perceive greater inflation than BLS reports
 Average perceived year-over-year price increase for select grocery products



Source: PYMNTS
 Consumer Inflation Sentiment: In It For The Long Haul, December 2022
 N = 2,379: Whole sample, fielded Nov. 3, 2022 – Nov. 7, 2022

Figure 1C
Consumers perceive greater inflation than BLS reports
 Year-over-year price changes for products and services as measured by BLS



Source: Author unknown. Table 1. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category. U.S. Bureau of Labor Statistics. 2022. <https://www.bls.gov/news.release/cpi.t01.htm>. Accessed December 2022.

Even consumers whose wages have kept pace with inflation are cutting their spending.

Cutting back on expenses is almost fashionable at this point, with 59% of shoppers who have not lost buying power due to inflation saying they are cutting back on non-necessary purchases. Naturally, consumers whose paychecks lost the greatest amount of purchasing power are the most likely to cut back on nonessential spending or switch to cheaper merchants.

The vast majority of consumers, 88%, say their paychecks have not kept pace with inflation, and 18% say their income has decreased. Given this common situation, it is easy to understand why 34% of these consumers whose paychecks have not matched inflation think a recession is already taking place, and 72% are very or extremely worried about the U.S. economic situation.

Paycheck erosion and concerns about the future are driving Americans across all economic statuses to cut back their spending significantly. Sixty-nine percent of consumers overall and 59% of consumers whose income has increased along with inflation say they are cutting back on unnecessary spending, compared to 75% of consumers whose income has decreased. Additionally, almost 40% of baby boomers worry that they will not be able to reach their financial goals due to their investments losing value.

69%
SHARE OF CONSUMERS
THAT ARE **CUTTING BACK**
ON UNNECESSARY
SPENDING

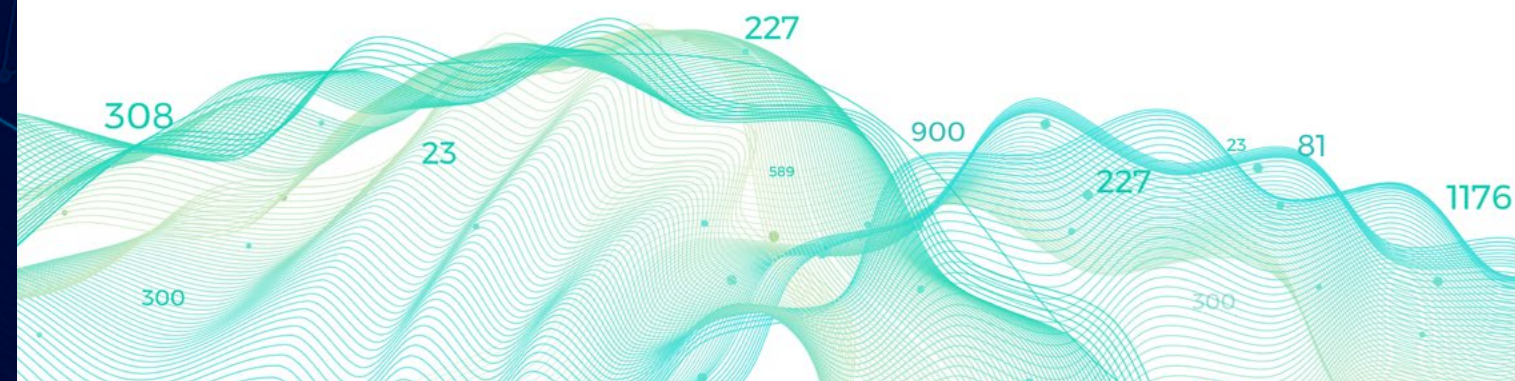
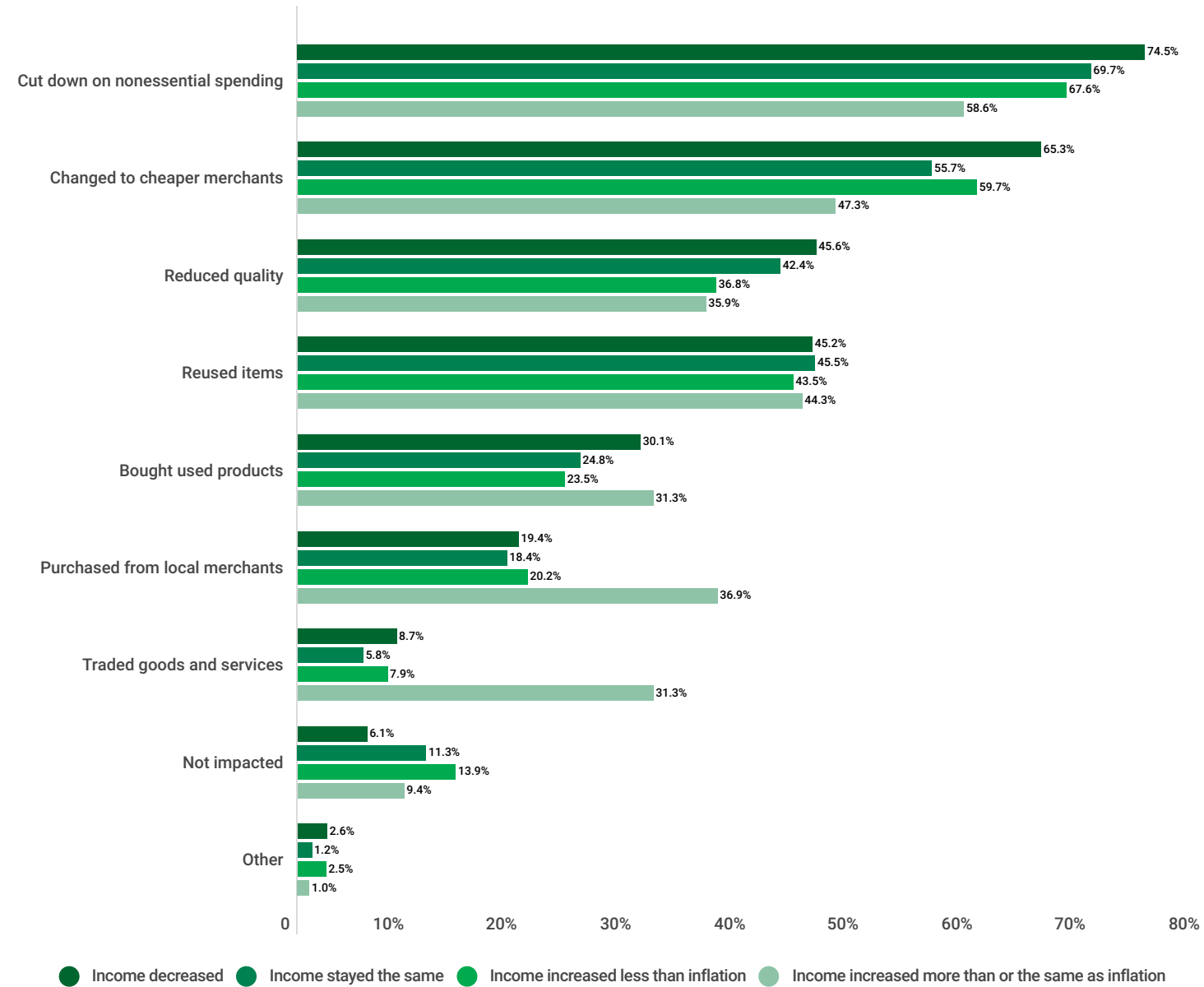
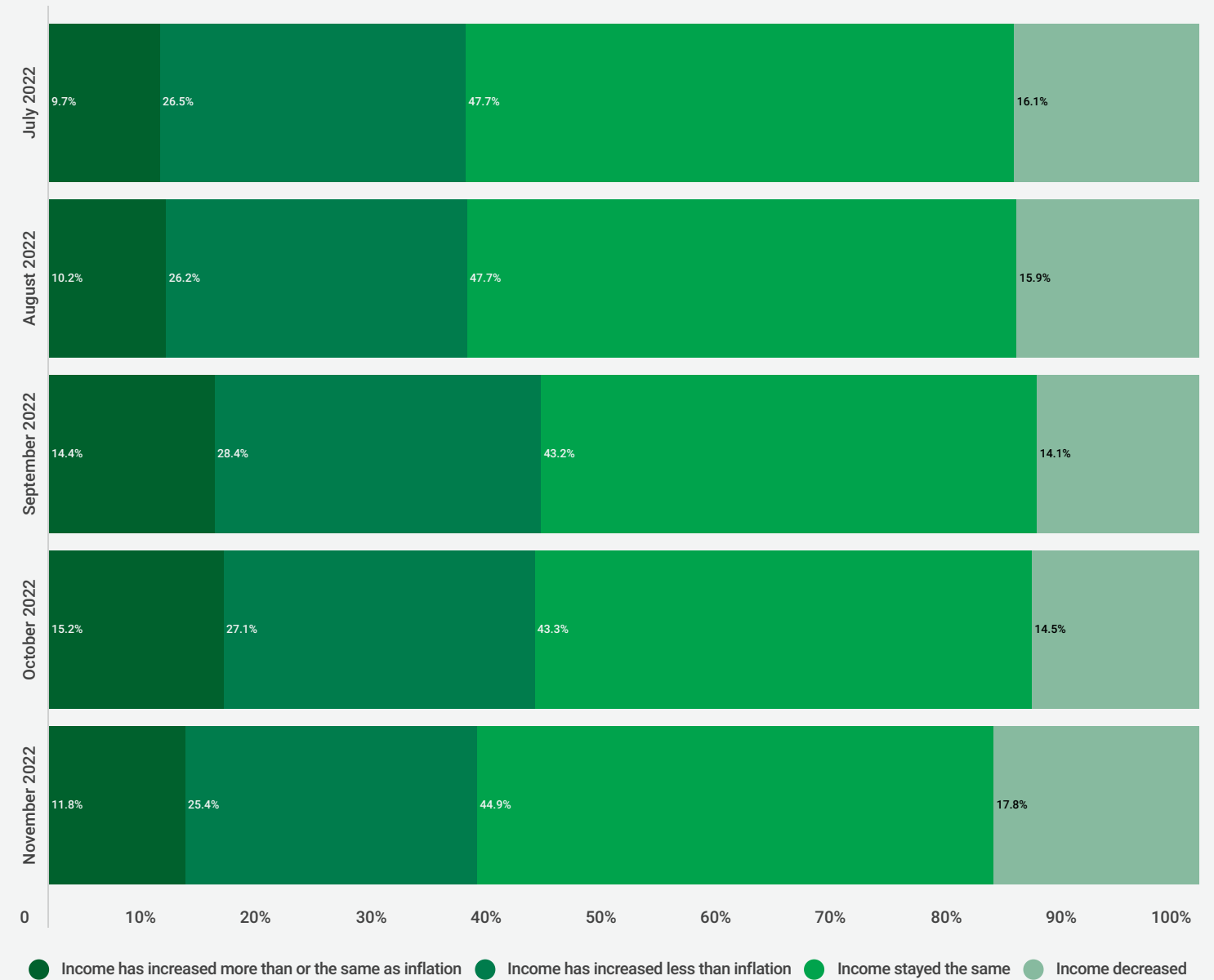


Figure 2A
Even affluent consumers are concerned about inflation and cutting back
 Share of consumers making specific changes to their shopping habits, by income



Source: PYMNTS
 Consumer Inflation Sentiment: In It For The Long Haul, December 2022
 N = 2,379: Whole sample, fielded Nov. 3, 2022 – Nov. 7, 2022

Figure 2B
Even affluent consumers are concerned about inflation and cutting back
 Share of consumers whose income has changed relative to inflation



Source: PYMNTS
 Consumer Inflation Sentiment: In It For The Long Haul, December 2022
 N = 2,379: Whole sample, fielded Nov. 3, 2022 – Nov. 7, 2022

U.S. consumers believe inflation will remain high until mid-June 2024, or 20 more months, despite improvement in month-over-month levels.

The inflation rate has not been this high since the 1980s. It peaked at 14.6% in March of 1980, and it took another six years before price increases normalized. In terms of duration, this period of escalated inflation is currently on track to be the longest of the 21st century. Inflation has not been above the Fed’s 2% target for this long since May 2004 to August 2006.

Across all consumer groups, only a small minority believe high inflation will dissipate in less than six months. Just 16% of millennials think inflation will take under six months to go back to the 2% zone. This is the demographic most likely to believe the inflation rate will return to normal relatively fast. Conversely, only 4% of baby boomers and seniors think inflation will stabilize in under six months, with 24% believing inflation will last over two years.

The majority of consumers agree that we are only halfway through this high inflationary period. Overall, consumers think inflation will return to normal levels by June 2024, or about 20 months from now. Again, millennials are the most optimistic generational cohort, believing inflation will normalize by April 2024, four months sooner than baby boomers and seniors on average.

Table 1
The current inflationary period is likely to become the longest so far this century
Incidents of high inflation in the United States since 2000

	January 2000 - September 2001	May 2004 - August 2006	March 2007 - October 2008	March 2011 - March 2012	March 2021 - October 2022	
Duration (in months)	21	27	19	12	19	
Average year-over-year inflation	All items	3.3%	3.4%	3.7%	3.3%	6.8%
	Energy	13.4%	17.1%	13.9%	14.1%	27.1%
	Food at home	2.7%	2.4%	5.5%	5.1%	7.4%
	Medical care	4.3%	4.3%	4.2%	3.2%	2.6%
	Services	3.8%	3.4%	3.5%	1.9%	4.5%
	Rent/mortgage	3.4%	2.8%	3.1%	1.6%	4.3%
	Transportation	4.3%	6.3%	6.1%	9.3%	17.7%

Source: Author unknown. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category. U.S. Bureau of Labor Statistics. 2022. <https://www.bls.gov/data/#prices>. Accessed December 2022.

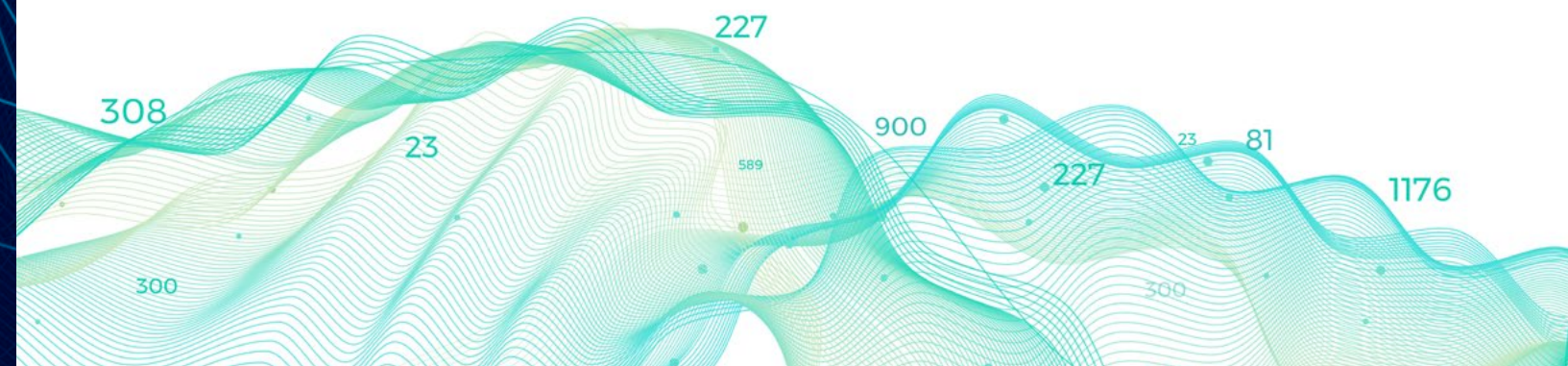
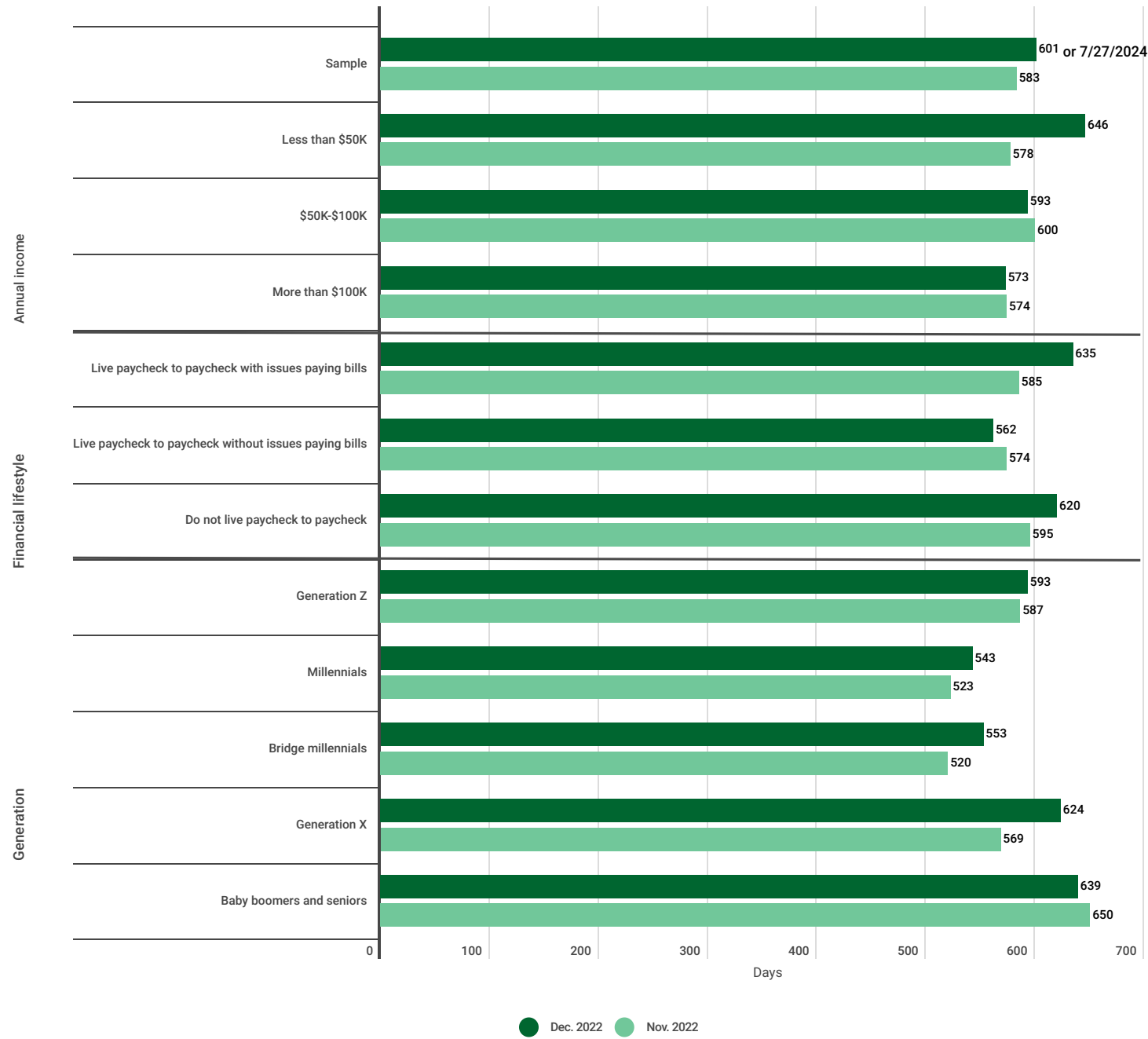


Figure 3
Projected time to stabilization

The amount of time expected until prices begin stabilizing, by demographic



Source: PYMNTS
 Consumer Inflation Sentiment
 N (November)= 2,379: Whole sample, fielded Nov. 3, 2022 – Nov. 7, 2022
 N (December)= 2,140: Whole sample, fielded Dec. 1, 2022 – Dec. 5, 2022



CONCLUSION

It is becoming increasingly evident to consumers that inflation is not going away anytime soon — the current economic conditions will likely continue well into the new year. American consumers are growing cautious, tightening their belts and spending conservatively during what could become the longest inflationary period in U.S. history, possibly even lasting longer than the stretch in the early 1980s. One thing is clear: We are in it for the long haul.

METHODOLOGY

Consumer Inflation Sentiment: In It For The Long Haul, produced independently by PYMNTS, examines and analyzes inflation's impact on consumers. We surveyed 2,379 U.S. consumers between Nov. 3 and Nov. 7 about their experiences and perceptions. The sample was balanced to match the U.S. adult population in a set of key demographic variables. Our respondents' average age was 48, 48% were female and 36% earned more than \$100,000 annually.

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